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SUBJECT: GERMAN VIEWS ON ADDITIONAL EU DESIGNATIONS OF
IRANIAN ENTITIES AND INDIVIDUALS

REF: STATE 160808

Classified By: DCM John M. Koenig for reasons 1.4
(b) and (d).

¶1. (C) SUMMARY: German Government officials are still deliberating at a very senior level how they will proceed on the UK and French proposal to add Banks Melli and Saderat and the Ex-Im Bank of Iran to the April 2007 EU list of designated individuals/entities. German officials regard the UN path as the most important to demonstrate international community solidarity, insisting that EU autonomous measures in advance of efforts to achieve a third UNSCR would give China and Russia an excuse - and an economic incentive - to back out of the UN process. German officials also note that Germany will pay a higher economic price for additional autonomous designations/measures than its EU counterparts. These arguments notwithstanding, we have begun to see indications inside the Chancellery that Germany would be willing to agree to designate only Bank Melli but have that designation take effect only after a certain delay (perhaps in January, by which point the UNSCR process would be assumed to have run its course). Embassy Berlin has stressed with German Government officials at all levels that increased pressure on Tehran is the only way to succeed in persuading the regime to comply with its international obligations. However, German officials insist that including all three banks in EU listings in advance of a third UNSCR looks less like an "expansion" under existing measures, and more like "new" measures. Convincing the Germans to change their position will likely require sustained engagement at very senior levels. END SUMMARY.

¶2. (C) Emboffs delivered reftel demarche to key officials and action officers in the Chancellery, MFA, and Economics Ministry on November 28.

CHANCELLERY VIEWS

¶3. (C) Chancellery National Security Advisor Christoph Heusgen noted on November 28 that he has not been following the EU discussions in great detail, but has spoken with the UK NSA MacDonald on the matter. Heusgen told DCM the German interagency is currently examining possible further banking designations, especially Bank Melli. Heusgen did not know what the timing for a decision would be. He said MacDonald told him this was the bank that would have the most impact if Germany moved on sanctions. With regard to shifting of funds, Heusgen said the Germans observed such activity in the case of Bank Sepah, which they closed, and maintain that it undoubtedly would occur in the case of Melli, since the prospective designation is already out in the press. The

Germans are also concerned about the impact of broader designations of Iranian banks on credit guarantees; in a worst case, German taxpayers could be left holding the bag for several hundred million Euros. (COMMENT: Heusgen seemed to give more weight to the economic and business impact on Germany than he has in the past. END COMMENT.)

¶4. (C) On trade, Heusgen said the Chancellor wants to focus measures on areas where German technology/products are hard to replace with substitutes from other exporters, e.g. China, as she explained in Crawford. The Chancellery is targeting the oil and gas sector, including machine and technology supports, and Germany will take this line in the November 30 EU meeting. The Chancellor is also using "moral suasion" to persuade high-tech firms to withdraw from the Iranian market. The Chancellor met Monday evening with German Federation of Industries (BDI) President Thumann and other BDI officials and urged them to join her tough line on trade with Iran; she told Heusgen that the attendees "understand the general line."

MFA NONPROLIFERATION DIVISION

¶5. (C) MFA Nonproliferation and Arms Control Office Director Helmut Hofmann (the Arms Control Commissioner and his Deputy were both outside Berlin) told POLMC that Germany's position on listing (including banks, insurance, and transportation firms) was currently under deliberation among German agencies at "very high" levels. When asked if these deliberations would be finished in time for the November 30 EU experts meeting and December 1 P5 1 PolDir meeting, Hofmann retorted that the Germans are aware of the dates but did not know if deliberations would be finished by then. He added that Germany is the country that will be most affected by further steps and thus it wants to study these options carefully. He

echoed Heusgen's note that German taxpayers may be left holding a several hundred million Euro bill should Iranian companies default on payments; he also added that it is "easy for countries to express wishes and desires when they are not the ones affected."

¶6. (C) Asked if Germany is willing in principle to add banks to the EU list, Hofmann said Germany is "ready." But if several banks were listed, this would look less like an "expansion" under existing measures, and more like "new" measures. Hoffman said that in his personal opinion evidence was still lacking in the case of some banks, but emphasized that the decision is now at the political level.

¶7. (C) Asked whether EU listings would have immediate effect, Hofmann responded that Germany wants to see where the UNSCR process goes and does not want to see other steps (EU-only) interfere with the UNSCR process. He does not foresee anything taking effect in the next two to three weeks. POLMC noted that while the desire for universality is understood, we may be more likely to succeed through EU3 1 unity. At previous P5 1 meetings, replied Hofmann, the Russians complained loudly and at length about USG "unilateral" efforts (our designations in October); while Germany did not agree with Russia's complaint, Hofmann asked if we really want to give the Russians a pretext that could allow them to sidetrack efforts.

¶8. (C) Hofmann added that he had heard figures that Germany's trade with Iran might be declining by as much as 50 percent (COMMENT: German Government economic experts tell us German trade with Iran is projected to drop by 30 percent in 2007. END COMMENT). Hofmann said the Finance and Economics Ministries have real concerns about the listings but did not elaborate. He raised the concern that it might not be in Germany's or the West's long-term interest to push the Iranians into the arms of China and Russia politically or China and India economically. POLMC pointed out that that time was not in our favor - there were shorter term issues that were more pressing - halting Iran's progress toward a nuclear weapons capability - and we needed to raise the pressure on Iran.

¶ 9. (C) Hofmann suggested that if the proposed banks were listed, then the situation could turn into a "type of embargo." POLMC disagreed; there are other banks, including private banks not involved in proliferation or terrorist finance. Hofmann then asked why "reputable" German banks had withdrawn from the Iranian market (under U.S. pressure, he implied); POLMC pointed out that they did so voluntarily, taking reputational and other risk, as well as due diligence factors into consideration. (NOTE: In a departure from his normal talking points, Hofmann made no attempt to justify the situation at the IAEA.)

MFA ECONOMIC POLICY DIVISION

¶ 10. (C) MFA Economic Policy Officer Claudia Schuett pointed to language in the October GAERC Conclusions stating that EU action would "support the UN process." Schuett insisted that EU autonomous measures in advance of a third resolution would "undermine, not support" the UN process, by giving China and Russia an economic incentive to continue dragging their feet.

Schuett reiterated that Germany will support EU autonomous measures but that the key issue for Germany is timing. Schuett argued it is premature to pursue EU measures as long as there is still a chance to keep Russia and China on board. As soon as the text of a third resolution is finalized, or as soon as it becomes clear China and Russia do not intend to support a third resolution, Germany will support EU autonomous action. She asserted this was consistent with the Chancellor's position.

¶ 11. (C) Schuett noted that listing additional entities and/or individuals (regardless of when such listings occur) will require an EU Council decision to amend the April 2007 Council Common Position. From a logistical/mechanical standpoint, she said, the Germans do not necessarily distinguish between "new" and "expanded" listings/measures. The key, she said again, is timing. Germany fears that additional listings/measures now would be seen as an attempt to "predetermine" a third UNSCR or give China and Russia an economic incentive and/or excuse to back out of the UN process.

¶ 12. (C) EconOff countered that, at this point, EU autonomous

measures might be the only lever we have to get Russia and China to stop dragging their feet in New York. EconOff stressed the importance of not just saying "no" to such measures, but to propose constructive alternatives to address Russian and Chinese intransigence. Schuett - thinking aloud - said Volker Stanzel (German Ambassador to China prior to becoming PolDir) was best positioned - at least within the MFA - to convince China to support a third UNSCR.

ECONOMICS MINISTRY

¶ 13. (C) Ernst Roeder-Messell in the Economics Ministry's Foreign Trade Law Division echoed Schuett's analysis. For Germany, Roeder-Messell said, the question is "what constitutes support versus what constitutes pre-emption" of a UN resolution. On the question of EU autonomous sanctions, Roeder-Messell argued, all German ministries are following the Chancellor's lead. Merkel, he said, has repeatedly - and publicly - expressed a strong preference for UN sanctions first, followed by EU sanctions. "Russia and China are looking for excuses" to back out of the UN process. Noting that Chinese trade with Iran has continued to increase, Roeder-Messell insisted EU autonomous measures before a third UNSCR would give China an economic incentive to take advantage of EU trade cuts by continuing to stall action in New York.

¶ 14. (C) Roeder-Messell said German policymakers are still discussing a German position on including Bank Mell and Bank Saderat in EU listings, but remained concerned that listing a major Iranian bank before the UNSCR would create an even greater economic incentive for China to delay UN action. "China will say thank you very much" and use its barter

arrangements with Iran to ramp up trade even further, Roeder-Messell stated. Asked to comment on an article in Der Spiegel magazine on the economic effect of listing Bank Melli, Roeder-Messell said the German Government sees Bank Melli as a foreign policy problem, not a commercial/trade problem. "Commercial pain is acceptable" if: 1) it hurts Iran's weapons program and 2) influences Iran's decision to suspend enrichment. He reiterated that Iran will not agree to suspend if Russia and China simply fill the commercial void left by EU sanctions.

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